

# **Report on the Selection of Eligible Countries for Fiscal Year 2019**

December 20, 2018



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## Summary

This report is provided in accordance with section 608(d)(1) of the Millennium Challenge Act of 2003, as amended (the “Act”) (22 U.S.C. 7707(d)(1)).

The Act authorizes the provision of assistance under section 605 of the Act (22 U.S.C. 7704) to countries that enter into compacts with the United States to support policies and programs that advance the progress of such countries in achieving lasting economic growth and poverty reduction, and are in furtherance of the Act. The Act requires the Millennium Challenge Corporation (“MCC”) to determine the countries that will be eligible to receive assistance for the fiscal year, based on their demonstrated commitment to just and democratic governance, economic freedom, and investing in their people, as well as on the opportunity to reduce poverty and generate economic growth in the country. The Act also requires the submission of reports to appropriate congressional committees and the publication of notices in the Federal Register that identify, among other things:

1. The countries that are “candidate countries” for assistance for fiscal year (“FY”) 2019 based on their per-capita income levels and their eligibility to receive assistance under U.S. law, and countries that would be candidate countries but for specified legal prohibitions on assistance (section 608(a) of the Act (22 U.S.C. 7707(a)));
2. The criteria and methodology that the Board of Directors of MCC (the “Board”) will use to measure and evaluate the policy performance of the “candidate countries” consistent with the requirements of section 607 of the Act in order to determine “eligible countries” from among the “candidate countries” (section 608(b) of the Act (22 U.S.C. 7707(b))); and
3. The list of countries determined by the Board to be “eligible countries” for FY 2019, with justification for eligibility determination and selection for compact negotiation, including with which of the eligible countries the Board will seek to enter into compacts (section 608(d) of the Act (22 U.S.C. 7707(d))).

This is the third of the above-described reports by MCC for FY 2019. It identifies countries determined by the Board to be eligible under section 607 of the Act (22 U.S.C. 7706) for FY 2019 with which the MCC will seek to enter into compacts under section 609 of the Act (22 U.S.C. 7708), as well as the justification for such decisions. The report also identifies countries selected by the Board to receive assistance under MCC’s threshold program pursuant to section 616 of the Act (22 U.S.C. 7715).

## Eligible Countries

The Board met on December 11, 2018, to select those eligible countries with which the United States, through MCC, will seek to enter into a Millennium Challenge Compact pursuant to section 607 of the Act (22 U.S.C. 7706). The Board selected the following eligible countries for such assistance for FY 2019: Indonesia, Malawi, Kosovo, Benin, Burkina Faso, Côte d’Ivoire, Ghana and Niger. The Board also selected the following previously-selected countries for compact assistance for FY 2019: Burkina Faso, Lesotho,

Timor-Leste and Tunisia.

## Criteria

In accordance with the Act and with the “Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2019” formally submitted to Congress on September 13, 2018, selection was based primarily on a country’s overall performance in three broad policy categories: Ruling Justly, Encouraging Economic Freedom, and Investing in People. The Board relied, to the fullest extent possible, upon transparent and independent indicators to assess countries’ policy performance and demonstrated commitment in these three broad policy areas. The Board compared countries’ performance on the indicators relative to their income-level peers, evaluating them in comparison to either the group of countries with a GNI per capita equal to or less than \$1,875, or the group with a GNI per capita between \$1,876 and \$3,895.

The criteria and methodology used to assess countries on the annual scorecards are outlined in the [“Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2019.”](#)<sup>1</sup> Scorecards reflecting each country’s performance on the indicators are available on MCC’s website at [www.mcc.gov/scorecards](http://www.mcc.gov/scorecards).

The Board also considered whether any adjustments should be made for data gaps, data lags, or recent events since the indicators were published, as well as strengths or weaknesses in particular indicators. Where appropriate, the Board took into account additional quantitative and qualitative information, such as evidence of a country’s commitment to fighting corruption, investments in human development outcomes, or poverty rates. In keeping with legislative directives, the Board also considered the opportunity to reduce poverty and promote economic growth in a country, in light of the overall information available, as well as the availability of appropriated funds.

The Board sees the selection decision as an annual opportunity to determine where MCC funds can be most effectively used to support poverty reduction through economic growth in relatively well-governed, poor countries. The Board carefully considers the appropriate nature of each country partnership – on a case-by-case basis – based on factors related to economic growth and poverty reduction, the sustainability of MCC’s programs, and the country’s ability to attract and leverage public and private resources in support of development.

This was the first year the Board considered the eligibility of countries for concurrent compacts, as permitted under the African Growth and Opportunity Act and MCA Modernization Act, Pub. L 115-167, signed by President Trump in April 2018, which authorizes MCC to enter into one additional concurrent compact with a country if one or both of the compacts with the country are for the purpose of regional economic integration, increased regional trade, or cross-border collaborations. In addition to the considerations for compact eligibility detailed above, the Board considered whether a country being considered for a concurrent compact is making considerable and demonstrable progress in implementing the terms of its existing Compact.

This was the tenth year the Board considered the eligibility of countries for subsequent compacts, as permitted under section 609(k) of the Act. MCC's engagement with partner countries is not open-ended, and the Board is very deliberate when selecting countries for follow-on partnerships, particularly regarding the higher bar applicable to subsequent compact countries. In making these selection decisions, the Board considered – in addition to the criteria outlined above – the country's performance implementing its first compact, including the nature of the country's partnership with MCC, the degree to which the country has demonstrated a commitment and capacity to achieve program results, and the degree to which the country has implemented the compact in accordance with MCC's core policies and standards. To the greatest extent possible, these factors were assessed using pre-existing monitoring and evaluation targets and regular quarterly reporting. This information was supplemented with direct surveys and consultation with MCC staff responsible for compact implementation, monitoring, and evaluation. MCC published a [Guide to Supplemental Information](#)<sup>2</sup> and a [Guide to the Compact Survey Summary](#)<sup>3</sup> in order to increase transparency about the type of supplemental information the Board uses to assess a country's policy performance and compact implementation performance. The Board also considered a country's commitment to further sector reform, as well as evidence of improved scorecard policy performance.

In addition, this is the third year where the Board considered an explicit higher bar for those countries close to the upper end of the candidate pool, looking closely in such cases at a country's access to development financing, the nature of poverty in the country, and its policy performance.

## Countries newly selected for compact assistance

Countries selected for a first or subsequent compact: Using the criteria described above, three candidate countries under section 606(a) of the Act (22 U.S.C. 7705(a)) were newly selected for assistance under section 607 of the Act (22 U.S.C. 7706): Indonesia, Malawi and Kosovo.

**Indonesia:** Indonesia has demonstrated impressive gains on its scorecard, now passing 15 of 20 indicators overall in the higher income category. In particular, Indonesia's Control of Corruption score has risen every year for eight straight years, while its Political Rights and Civil Liberties scores remain strong. Key metrics were achieved in two projects in the first compact and both have been adopted as models for implementation across the government. While the third project ran into delays that led to the deobligation of funds, MCC has learned from the experience of partnering with the Government of Indonesia and will work with it to focus a subsequent compact and leverage the lessons learned from the first compact to maximize the impact and effectiveness of U.S. assistance.

**Kosovo:** Kosovo has been an engaged and committed partner in the threshold program, demonstrating a willingness to commit to governance reforms. The country passes the scorecard for the second year in a row, passing 13 of 20 indicators overall, including Control of Corruption. At the same time, it remains one of the poorest countries in Europe, suffering from chronically high unemployment, low educational outcomes, and poor employment security. By selecting Kosovo for a compact, MCC will accelerate the government's efforts to strengthen economic growth to reduce poverty.

**Malawi:** Malawi is one of the strongest scorecard performers in MCC's entire candidate pool, passing 18 of 20 indicators, including high Democratic Rights scores, despite being the third-poorest country in the world and MCC's poorest partner country. The country demonstrated commitment in the first compact. In addition to finishing all planned construction works, Malawi achieved important milestones under the compact, including approving and implementing an electricity tariff that is partially cost-reflective, and signing the first power-purchasing agreement with an independent power producer, moving the energy sector closer to long-term sustainability.

**Countries selected for a concurrent compact:** In accordance with section 609(k) of the Act, five candidate countries were newly selected to explore development of a concurrent compact under section 607 of the Act (22 U.S.C. 7706): Benin, Burkina Faso, Côte d'Ivoire, Ghana, and Niger.

**Benin:** Benin continues its strong scorecard performance in FY 2019, passing 13 of 20 indicators, with particularly high scores on Democratic Rights and Control of Corruption. MCC's partnership with the government has remained strong throughout the current compact, despite politically challenging reforms required under the program and the arrival of a new government in 2016. A strong scorecard performer and current partner, Benin presents substantial regional potential.

**Burkina Faso:** In FY 2019, Burkina Faso maintains its stronger scorecard performance compared to its first partnership with MCC, passing 13 of 20 indicators with strong performance on Control of Corruption (92nd percentile) and both Democratic Rights indicators. Selected to develop a subsequent compact in December 2016, Burkina Faso has a long track record of engagement with MCC and has been an effective partner throughout compact development. Burkina Faso has demonstrated strong scorecard performance, robust engagement as a compact partner, and presents potentially rich opportunities to strengthen regional integration efforts.

**Côte d'Ivoire:** Passing 14 of 20 scorecard indicators in FY 2019, Côte d'Ivoire is a positive "MCC effect" story, with clear scorecard improvement over multiple years through intensive engagement with indicator institutions and implementing policy reforms. Côte d'Ivoire's current compact focuses on urban transport and planning and training skilled workers. Compact development and early implementation have benefited from high-level government support. Côte d'Ivoire is a model partner that has strongly engaged MCC throughout compact development and early implementation and presents substantial regional opportunities.

**Ghana:** A strong scorecard performer, passing 17 of 20 indicators, Ghana registers some of the highest Democratic Rights scores among MCC partners, while also scoring in the 90th percentile on Control of Corruption. Ghana's current compact entered into force in September 2016 and is expected to close in September 2021. Significant progress has already been made toward the goal of the current power sector compact to transform the country's power sector through private sector participation in its electricity utilities and key sector reforms. Ghana has demonstrated strong scorecard performance, built a successful compact partnership with MCC, and has significant regional potential.

**Niger:** Niger has been a solid scorecard performer, passing 12 of 20 indicators in FY 2019. Niger's current compact is focused on large-scale irrigation systems, road rehabilitation, and activities to ensure

infrastructure sustainability. The compact entered into force in January 2018 and is expected to close in January 2023. Niger has been a committed partner, with high-level participation and strong engagement, and is a country with significant regional potential.

## **Countries selected to continue compact development**

Four of the countries selected for compact assistance for FY 2019 were previously selected for FY 2018. These countries are Burkina Faso, Lesotho, Timor-Leste, and Tunisia, whose selection for FY 2019 was based on their continued or improved policy performance since their prior selection.

## **Countries selected to receive threshold program assistance**

The Board selected Ethiopia and the Solomon Islands to receive threshold program assistance.

**Ethiopia:** Ethiopia offers MCC the opportunity to recognize the Government of Ethiopia's important reform efforts following the arrival of a new Prime Minister, Abiy Ahmed, in April. Since he took office, the Government of Ethiopia has embarked on a series of significant reforms, including releasing thousands of political prisoners, apologizing for past state-led human rights abuses, and easing restrictions on media outlets. Ethiopia also renewed relations with neighboring Eritrea and signed a 20-year old peace treaty. Despite historically low Democratic Rights scores, the remarkable initial pace of change presents an opportunity for MCC to partner with Ethiopia as it seeks to accelerate its reform agenda.

**Solomon Islands:** In FY 2019 the Solomon Islands graduated from the lower income scorecard category to the higher income scorecard category, and as a result of the stiffer competition now fails the scorecard, passing only 9 of 20 indicators, while still passing Control of Corruption and Democratic Rights. The Solomon Islands represents an opportunity to engage a historically strong scorecard performer in the Indo-Pacific, a region of increasing interest.

## **Ongoing review of partner countries' policy performance**

The Board emphasized the need for all partner countries to maintain or improve their policy performance. If it is determined during compact implementation that a country has demonstrated a significant policy reversal, MCC can hold it accountable by applying [MCC's Suspension and Termination Policy](#)<sup>4</sup>.

## Endnotes

1. Available at <https://www.mcc.gov/resources/doc/report-selection-criteria-methodology-fy19>
2. Available at <https://www.mcc.gov/resources/doc/guide-to-supplemental-information-fy19>
3. Available at <https://www.mcc.gov/resources/doc/guide-to-the-compact-survey-summary-fy19>
4. Available at <https://www.mcc.gov/resources/doc/policy-on-suspension-and-termination>